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**COLONIAL  
OIL & GAS LIMITED**

*Colonial*



Annual Report 1979





## **COLONIAL OIL AND GAS LIMITED and SUBSIDIARIES**

*COG Inc.*

*Fort Nelson Gas Ltd.*

*Fort Nelson Transmission Co. Ltd.*

*General Utilities Corporation Ltd.*

*West Ridge Resources Ltd.*

### **DIRECTORS:**

SENATOR R. JAMES BALFOUR, Q.C.,  
*Senate of Canada, Ottawa, Canada*

V. EDWARD DAUGHNEY  
*President, Great Northern Financial Corporation, Toronto, Ontario*

JOHN L. GIBSON  
*President, Vancouver Distribution Centres Ltd., Vancouver, B.C.*

ROBERT W. HOLE  
*President, Lockerbie & Hole Ltd., Vancouver, B.C.*

HARVEY A. McDIARMID  
*Chairman, Colonial Oil & Gas Ltd., Vancouver, B.C.*

HORACE ReKUNYK  
*President, Colonial Oil & Gas Ltd., Calgary, Alberta*  
*Director, Mineral Engineering Company, Denver, Colorado*

JOHN B. ROSS  
*President, Canlan Investment Corporation, Vancouver, B.C.*

JAMES M. THOMSON, Q.C.  
*Associate, Milner & Steer, Calgary, Alberta*

PETER VAN DRIMMELEN  
*Managing Director, Netherlands Acceptance Corporation Ltd., Vancouver, B.C.*

### **OFFICERS:**

HARVEY A. McDIARMID, *Chairman*

H. ReKUNYK, *President*

ROBERT W. HOLE, *Vice-President*

FRED W. MAYCOCK, *Secretary*

CHARLES W. TEMPLETON, *Exploration Manager*

### **REGISTERED OFFICE:**

24th Floor, Ocean Plaza  
1066 W. Hastings Street  
P.O. Box 12534  
Vancouver, British Columbia  
V6E 3X1 Canada

### **ADMINISTRATION OFFICE:**

1300 - 100 West Pender Street  
Vancouver, British Columbia  
V6B 1R8 Canada  
Telephone (604) 685-9821

### **BANKERS:**

THE ROYAL BANK OF CANADA  
1025 West Georgia Street  
Vancouver, British Columbia  
V6E 3N9 Canada

### **REGISTRAR AND TRANSFER AGENT:**

MONTREAL TRUST COMPANY  
Vancouver and Regina, Canada

### **OPERATIONS OFFICE:**

620, 304 - 8th Avenue S.W.  
Calgary, Alberta  
T2P 1C2 Canada  
Telephone (403) 233-7350

### **AUDITORS:**

DELOITTE HASKINS & SELLS  
1500 - 1055 West Georgia Street  
Vancouver, British Columbia, Canada





## Highlights

### FINANCIAL

	1979	1978
REVENUES - - - - -	\$ 4,559,497	\$ 2,141,425
NET INCOME - - - - -	768,634	294,968
PER SHARE (CENTS) - -	13.4	8.9
CASH FLOW - - - - -	1,505,582	566,483
PER SHARE (CENTS) - -	26.25	17.09
WORKING CAPITAL - - -	2,001,833	(420,271)
TOTAL ASSETS - - - -	11,546,642	5,239,459
SHAREHOLDERS' EQUITY - -	7,801,215	2,377,341

### OPERATING

CRUDE OIL PRODUCED — BARRELS	14,840	12,573
GAS PRODUCED — MCF - -	1,546,764	732,696

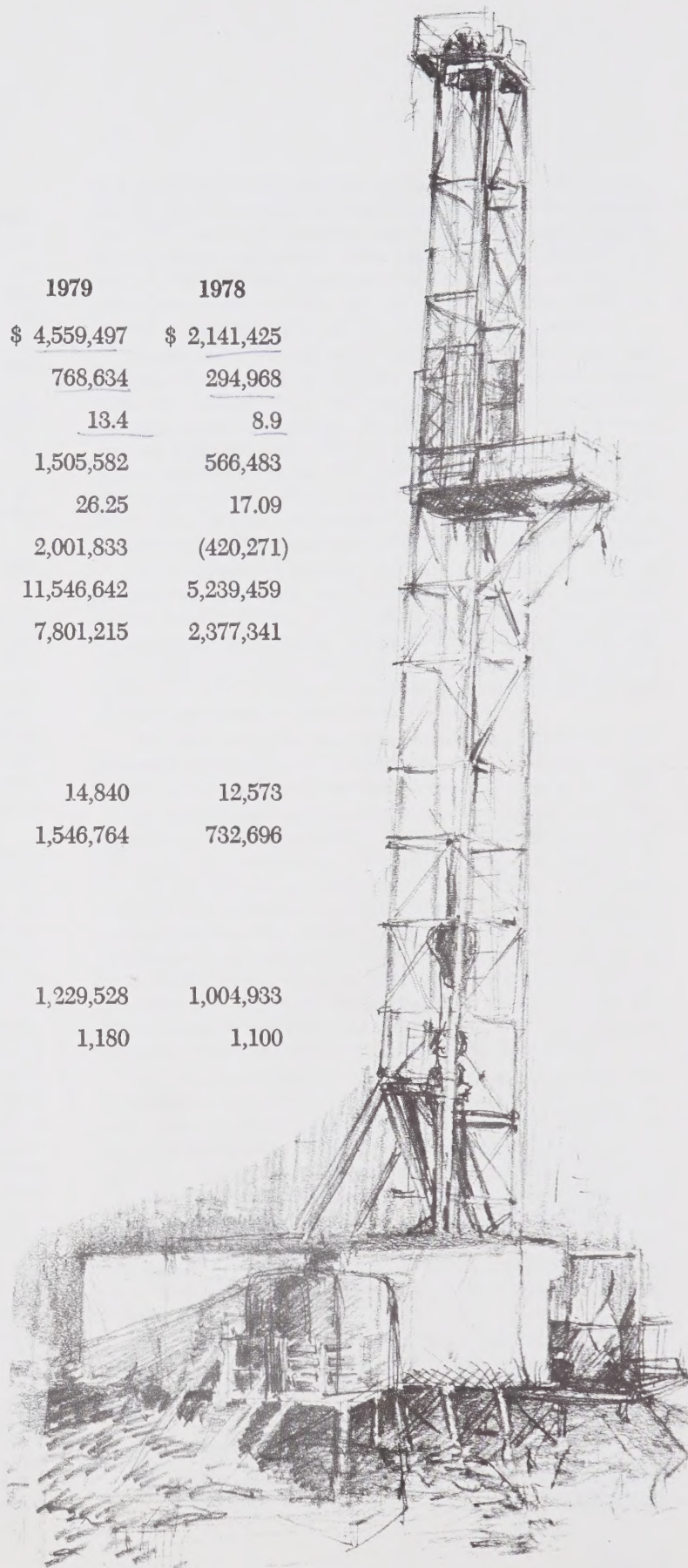
### FORT NELSON GAS LTD.


MCF GAS SOLD OR TRANSPORTED	1,229,528	1,004,933
NUMBER OF CUSTOMERS - -	1,180	1,100

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

10:00 A.M., JUNE 20th, 1980

PATRICIA ROOM  
GEORGIA HOTEL  
VANCOUVER, B.C.





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# Letter to Shareholders

To our Shareholders:

The year 1979 established record increases in revenues and earnings as well as a marked increase in capital expenditures.

Financially it was an exceptional year, primarily due to additions to producing properties resulting from an expanded acquisition and operations program and the result of higher average prices received for natural gas and crude oil.

Consolidated gross revenues for the year rose 113% to an all time high of \$4,559,497.00 compared with \$2,141,425.00 in 1978.

Cash flow from operations was \$1,505,582.00, an increase of 166% compared with \$566,483.00 for the prior year.

Net income for the year rose 160% to a record high of \$768,634.00 compared with \$294,968.00 in 1978.

Production records for the year reflect an increase in daily gas production of 111%. Total gas sales were 1,547 million cubic feet, up from 733 million cubic feet in 1978. Total oil production increased from 12,573 barrels to 14,850 barrels, an increase of 18%. Fort Nelson Gas Ltd., a wholly-owned utility serving the town of Fort Nelson in northeastern British Columbia, transported or sold 1,230 million cubic feet of gas to customers in the area, an increase of 22% over the 1978 total of 1,005 million cubic feet.

The company participated in the drilling of 25 gross wells resulting in 17 oil or gas completions and 8 abandonments compared to 13 gross wells in 1978 of which 10 were completed as oil or gas wells and 3 abandonments. Promising oil and gas discoveries were made that should add to the company's reserve and earnings base as the properties are developed.

Capital expenditures in 1979 totalled \$4,075,024.00, an increase of 710% from the previous year's total of \$491,008.00. Exploration expenditures and petroleum property acquisition accounted for 70% of the company's total capital outlays. In addition, the company managed a \$2,100,000.00 Canadian Joint Venture drilling program funded by private investors. As Manager of the drilling program, Colonial receives a management fee, pays 14% of the costs, and receives 14% of the revenues until payout of the successful wells at which time Colonial's interest increases to 28%. The company intends to organize a similar \$3,000,000.00 Joint Venture drilling program in 1980 all of which will be invested in western Canada. These Joint Venture arrangements permit the company to participate in larger and more diversified exploration and development programs in western Canada.

During the year the company purchased 200,000 shares, approximately 14% of the issued capital, of Minerals Engineering Company, a U.S. mining corporation involved in the exploration and development of mining properties in the U.S. MINERALS holds major interests

in a large silver property in Creede, Colorado. Work conducted on the property to date has delineated the potential for bulk tonnage reserves, and predevelopment studies are currently underway. The stock was purchased at a cost of \$599,000.00 Canadian, the shares trade on the U.S. over-the-counter market, and as of April 30th, 1980, reflected a market value of \$2,300,000.00 (Canadian).

Future market and price outlook for natural gas and pricing of crude oil in Canada remains uncertain. However, we believe that the approval of new gas exports by the National Energy Board and the trend toward greater domestic utilization of natural gas should improve future market demand. We further believe that the realities of Canada's energy potential and requirements will force the Federal Government to adopt more responsible policies related to petroleum product pricing and taxation.

The company currently derives approximately 30% of its total revenues and earnings from oil and gas operations in the United States. In an effort to minimize the current uncertainties in Canada, priority will be given to expand the company's assets and operation base in the United States where we have undertaken a land acquisition and drilling program in Texas and Wyoming.

We will continue our investments in exploration and property acquisition in western Canada, seeking, in particular to expand and develop discoveries made in 1979.

To enable the company to establish and maintain the aggressive capital programs, 3,187,494 shares were issued for cash or properties. Working capital increased by \$2,422,104.00 as at December 31st, 1979. The stock market has indicated a high regard for the company's performance as the closing price on the Vancouver Stock Exchange December 31st, 1979 was \$4.65 per share, up from \$1.60 at the close on December 31st, 1978. An application for listing of the company's shares on the Toronto Stock Exchange has been filed and we are anticipating that this listing will be effected in 1980.

At the last Annual Meeting Messrs. Nicholas Van Drimmelen and Frank J. Simington resigned as directors, and were replaced by Mr. Horace ReKunyk and Mr. V. Edward Daughney. In addition Mr. James Thomson, Q.C. and Mr. Peter Van Drimmelen were elected directors. The directors wish to acknowledge the lengthy service and many contributions made by Mr. Van Drimmelen, Sr., and Mr. Simington, and are pleased to advise that Mr. Simington remains active with the Corporate group as President and General Manager of the subsidiary, Fort Nelson Gas Ltd.

On behalf of the directors we wish to express our appreciation to our employees for their support and dedication, and look forward to their continued enthusiasm and their contribution to the growth of our company.

On behalf of the Board

H. ReKunyk  
President

Harvey A. McDiarmid  
Chairman



# Operations Review

## EXPLORATION AND DEVELOPMENT

The company participated in the drilling of twenty-five wells during 1979, which resulted in completion of twelve gas wells and four oil wells. One exploratory well located in the Northwest Territories was suspended with the intention of deepening during 1980.

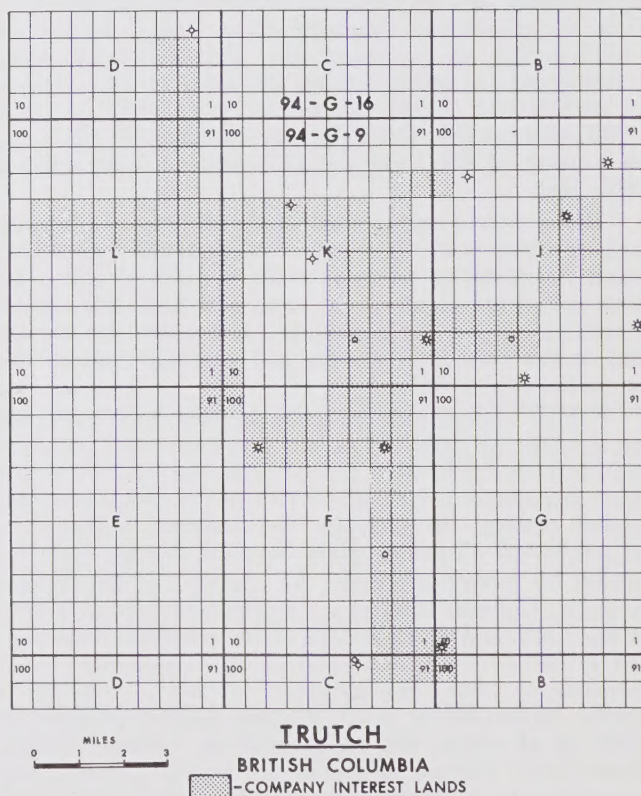
## CANADA

In May, 1979, shareholders were advised that the company had agreed to acquire varying interests in approximately 120 wells and surrounding acreage located largely in eastern Alberta. This agreement was concluded in December 1979 with the acquisition effective January 1st, 1979. During 1979 the company participated in ten development wells on these lands. These wells were drilled in the Plain Lake, Warwick, Birch, Stanmore and Edwand gas fields resulting in the completion of eight gas wells. It is expected that additional development wells will be drilled on these lands in 1980.



Elsewhere in Alberta, Colonial participated in the drilling and completion of three oil wells in the Vermilion heavy oil area. Additional drilling will be dependent upon production evaluation of these wells.

In British Columbia, Colonial participated in the purchase of lands in the Sikanni Creek-Trutch area located midway between Fort St. John and Fort Nelson. In this area, gas discoveries had been made in the Triassic Halfway sand and it appeared that this sand could be gas-bearing over a large area. One well (Colonial interest 8.66%) was drilled on these lands and completed as a gas well. In view of the results of this and other wells the company decided to expand its participation in the area. In early 1980 the company participated in the acquisition of three additional drilling reservations. Four wells were drilled during the 1979 - 80 winter drilling season, all being completed as gas wells. As a result of the competitive land situation in the area, information on these wells remains confidential. The company, however, is confident that substantial reserves are being developed. It is expected that Colonial and its partners will participate in at least four more wells in this area during the winter of 1980 - 81.



Also in British Columbia, Colonial participated (25% interest) in the drilling of a well located along the eastern boundary of the Stoddard oil and gas field. Natural gas was recovered on test, and the well will be completed at such time as markets are available for the gas.



In Saskatchewan, the company participated in the drilling and completion of one oil well (20% interest) in the Steelman field. This well was perforated early in January, 1980 and on a twelve-day test produced at an average rate of 53 barrels of oil per day. In early 1980, three additional oil wells were drilled and completed on the Steelman lands.

In North Steelman, approximately six miles to the northwest of the above-noted wells, the company in early 1980, participated in the drilling of an exploratory well. An oil discovery was made in this well, Cherokee et al Steelman 11-20-5-5. Additional prospective acreage was acquired and the company and its partners have planned the drilling of at least three more wells in 1980. The company's interest in these wells is 8.16%.

## UNITED STATES

Through its wholly owned subsidiary, COG Inc., Colonial holds a 14.82% interest in the Bullhook Gas Unit, and a 17.5% interest in non-unit lands located in the Tiger Ridge area of Montana. This field produces from the Eagle sands at depths of 1,200 to 1,800 feet.

Six development wells were drilled in this area in 1979, three of which were completed as gas wells. An additional six wells are planned for the 1980 drilling season.

## CAMEROONS

Colonial holds 0.022% overriding royalty interest in 373,000 acres of offshore permits on which Mobile drilled the Sanaga A-1 discovery well in 1979. Drillstem tests of this well produced gas at rates up to 65 million cubic feet per day with condensate production of 125 barrels per day. The well is reported to have a hydro-carbon-bearing zone of 900 feet. Several more wells have been planned for 1980 offshore Cameroon.

Colonial additionally holds 1.125% working interest in 180,000 acres of permit lands farmed out to Gulf and Shell. It is anticipated that Gulf and Shell will drill two wells on these lands in late June or early July, 1980.

## PRODUCTION

Natural gas production from wells in Alberta and Saskatchewan in 1979 was slightly in excess of one billion cubic feet, and the average well-head price received was \$1.62 (Canadian) per thousand cubic feet. Our share of production from the Bullhook field in Montana was five hundred million cubic feet and the average well-head price received was \$2.03 (Canadian) per thousand cubic feet.

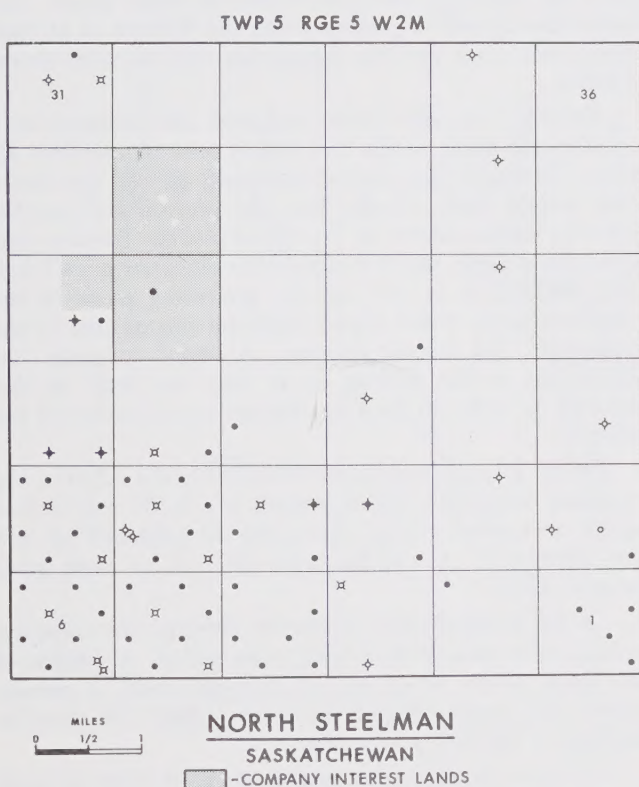
The greater portion of the company's oil production in 1979 came from Saskatchewan, and the average price received at the wellhead was \$11.96 (Canadian) per barrel. Our United States production, although of modest volume, was sold at an average price of \$20.43 (Canadian) per barrel at the wellhead.

De-regulations of oil and gas prices in the United States has created a distinct spread between U.S. and Canadian prices.

Unregulated oil prices in the United States have escalated to an equivalent of \$48.00 (Canadian) per barrel. This compares with the current price of \$14.75 per barrel in Canada, where previously announced price increases have been suspended pending agreement between the newly elected Federal Government and the government of the producing province.

Depletion and depreciation charges for the current year have been based upon independent engineering evaluations dated December 1978, with adjustments having been made for production for the period January 1, 1979 to December 31, 1979.

Estimates of the company's reserves as at January 1, 1980, including additions resulting from the 1979 - 1980 Joint Venture Programme are currently being prepared by independent reservoir engineers. Upon completion, the reserve estimates will be published in a later quarterly report.



In the Northwest Territories, the company in 1979 had participated in the drilling of a well, Paramount et al Liard D-29. The Liard D-29 well is located on a large structure known as the Liard Anticline. This well had reached depth of 8,239 feet and was suspended at this depth prior to reaching its primary objective, the Middle Devonian Carbonate. Colonial has agreed to participate in the re-entry and deepening of this hole to approximately 10,000 feet. A rig moved in and commenced operations in mid-February, 1980. The company is earning a 1.1% working interest in 33,000 acres by participation in this well.



## FORT NELSON GAS LTD.

This public utility located at Mile 300 of the Alaska Highway in North Eastern British Columbia made great progress in 1979, despite disruption of the B.C. Rail line for several months which seriously affected our two major Forest Industry industrial accounts. Lack of progress on the funding of the proposed Alaska gas pipe-line also affected the expected expansion of the town of Fort Nelson, but a significant increase in exploration for oil and gas in the surrounding area helped to maintain a high level of activity in the market area we serve. The milder weather pattern of the last three years continued, but on several occasions our pipeline operated at maximum capacity. To cope with the expected growth over the next five years a new high pressure six inch pipeline was completed from the West Coast Transmission Company treating plant to the Muskwa Industrial area south of Fort Nelson. The new line is 8.5 miles in length and increases our daily capacity from 5 million cubic feet to approximately 20 million cubic feet. Forecasts indicate this should be adequate for at least 10 years. Negotiations are underway with B.C. Hydro, who generate the bulk of their electric power with gas carried in our line, to re-open our contract that expires in 1986, and enter a new arrangement more responsive to rapidly changing conditions.

The new gas line came in on budget, and was built under difficult conditions. Long term financing of the new line was negotiated in the form of 11¼% first mortgage bonds due 1994, payable in annual installments of \$16,000 to 1984, \$25,000 to 1986 and \$40,000 to 1994.



## LAND HOLDINGS

In anticipation of an active drilling program in future years, Colonial in late 1979 and early 1980, acquired exploratory land in several areas of Western Canada and is actively pursuing prospects in the United States.

In British Columbia, the company holds interests varying between 3.33% and 50% in four drilling reservations and three leases totalling 24,630 acres located in the Trutch area. One gas well was drilled on these lands in 1979 and four more gas wells were drilled in early 1980. The company plans to continue its program of land acquisition and drilling in this area.

In Western Alberta there has been a growing interest in the deeper and tighter Cretaceous sands. Because of drilling and completion costs, these sands in previous years were regarded as non-commercial. Recent increases in the price of natural gas along with other drilling incentives has led to a renewed interest in these areas. Colonial has agreed to participate in the drilling of at least three wells near the Pine Creek gas field of west-central Alberta.

Colonial, in early 1980, acquired 20% interest in a 18,560 acre block in the Del Bonita area of southern Alberta. This area has yielded numerous oil and gas shows over several years. During the past year oil and gas discoveries to the north in the Blood Indian Reserve and Claresholm areas led to considerable exploration and drilling activity. It is felt that the producing zones in the discovery areas noted above could be prospective in the company's Del Bonita acreage. A major company has committed to the drilling of at least one well on this acreage in order to earn an interest in a portion of the lands.

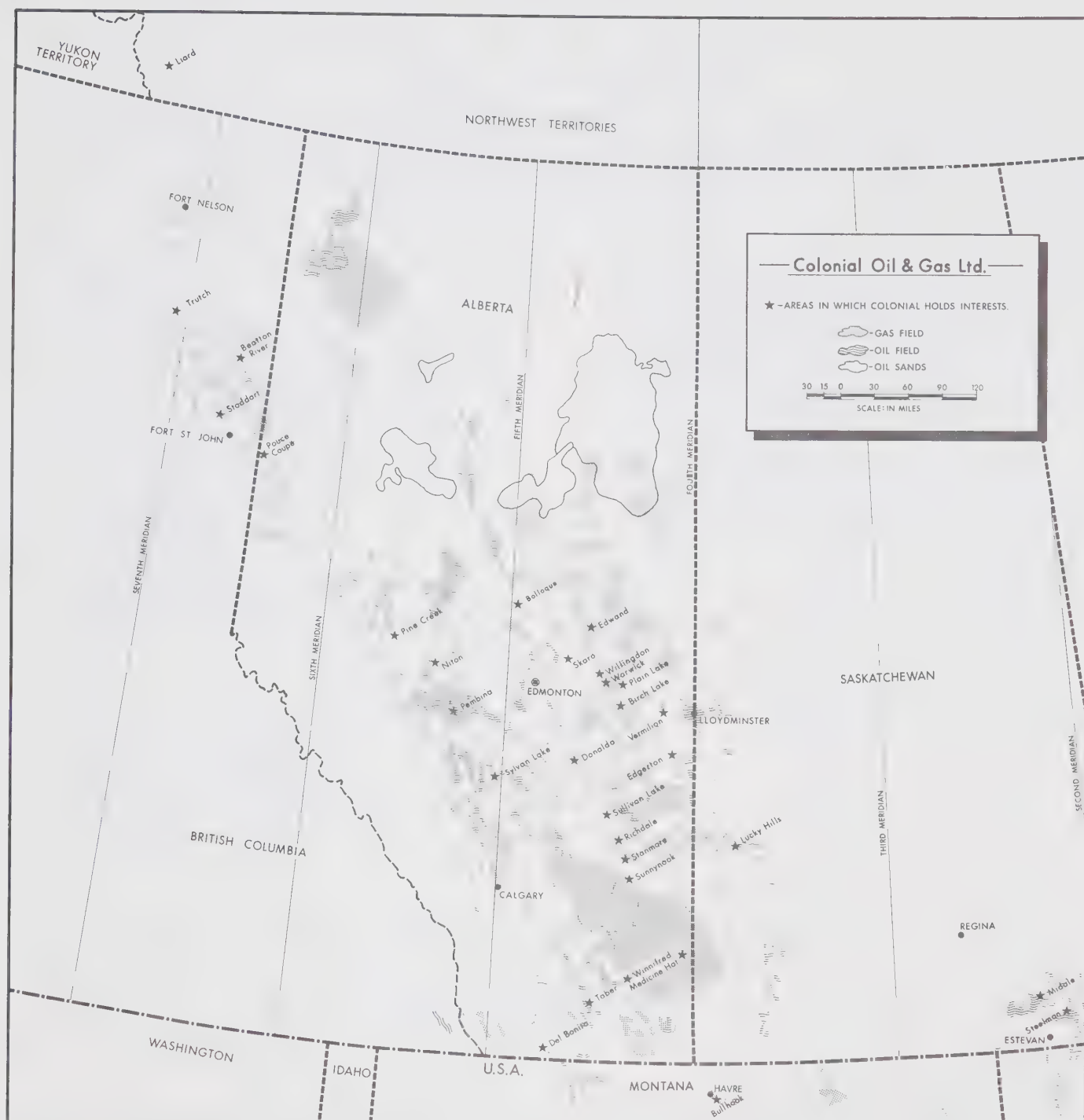
In the Pouce Coupe area of northwestern Alberta, the company acquired a 12½% interest in a 5,760 acre license which is located within two miles of indicated oil and gas discoveries. A well has been planned for these lands later in 1980.

In the Richdale area of eastern Alberta, the company holds a 25% interest in a 7,680 acre parcel. A portion of the lands offsets completed oil and gas wells. A seismic survey has been planned for early 1980 with possible drilling in the fall and winter.

In Saskatchewan, additional lands have been acquired in the vicinity of the Steelman oil well covered earlier in the report. In addition, the company committed to an interest in the drilling of another exploratory prospect in the North Steelman area. This well was drilled in early 1980 and the company and its partners acquired additional offset acreage. At least six wells are planned for the Steelman and North Steelman areas in 1980.

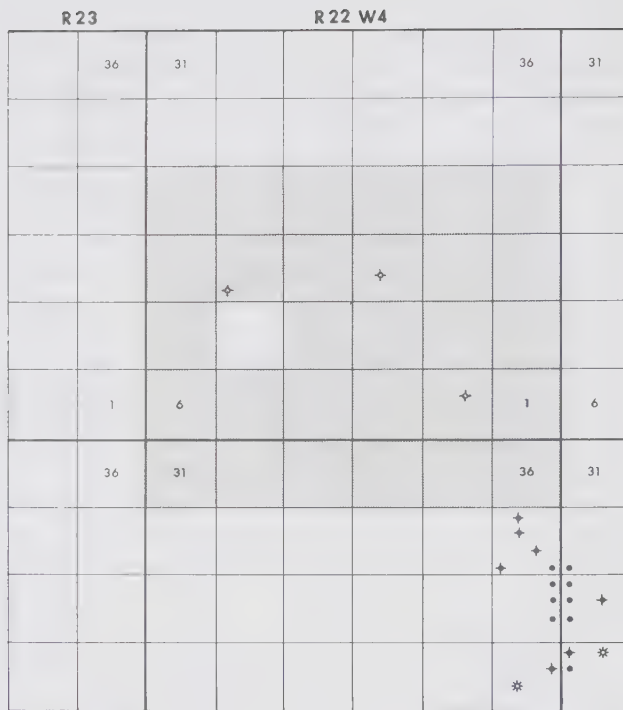
Petroleum and natural gas prices in the United States continue to advance, making exploration and development of oil and gas in the U.S. more attractive than in Canada. Accordingly, the company has been investigating several interesting drilling possibilities in Wyoming, Oklahoma and Texas and expects to be in position to undertake drilling commitments later in 1980.





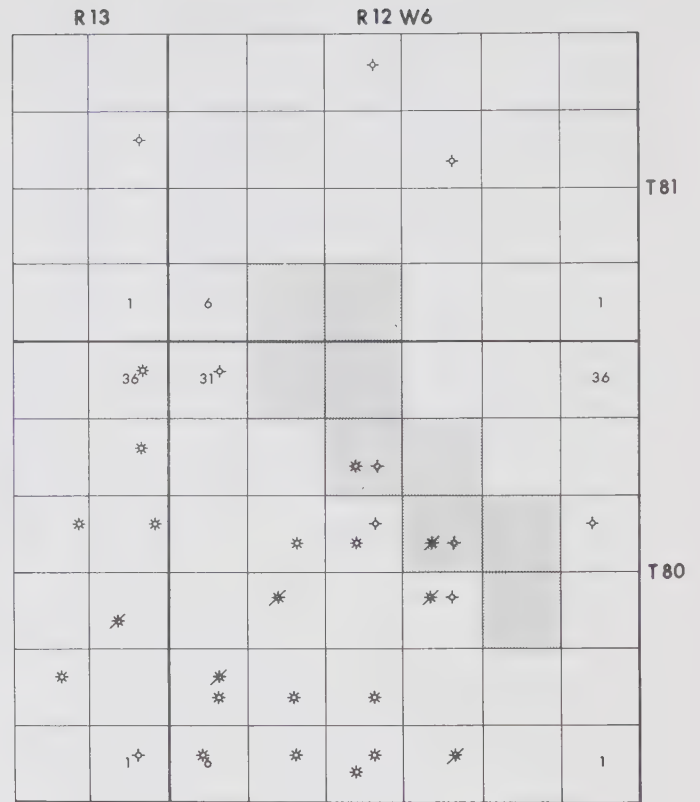
## Land Holdings AS AT APRIL 30th, 1980

CANADA							Gross Acres	Net Acres
Alberta	-	-	-	-	-	-	272,829	32,645
British Columbia	-	-	-	-	-	-	38,848	540
Saskatchewan	-	-	-	-	-	-	7,760	659
Northwest Territories	-	-	-	-	-	-	33,178	365
							352,615	34,209
UNITED STATES							94,560	14,736
INTERNATIONAL								
German North Sea	-	-	-	-	-	-	98,000	15,680
Cameroons	-	-	-	-	-	-	553,000	2,025
							651,000	17,705
							1,098,175	66,650



**DEL BONITA**  
**ALBERTA**

■ - COMPANY INTEREST LANDS



**POUCE COUPE**  
**ALBERTA**

■ - COMPANY INTEREST LANDS

## AUDITOR'S REPORT

To the Shareholders of  
Colonial Oil & Gas Limited:

We have examined the consolidated balance sheet of Colonial Oil & Gas Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

DELOITTE HASKINS & SELLS  
Auditors.

April 17, 1980



# COLONIAL OIL & GAS LIMITED

## CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1979

(with prior year's figures for comparison)

													1979	1978
REVENUE:														
Oil and Gas	-	-	-	-	-	-	-	-	-	-	-	-	\$ 2,984,815	\$ 1,100,255
Gas distribution	-	-	-	-	-	-	-	-	-	-	-	-	1,326,176	1,041,170
Interest and other	-	-	-	-	-	-	-	-	-	-	-	-	248,506	—
Total revenue													4,559,497	2,141,425
COSTS AND EXPENSES BEFORE CHARGES:														
Oil and gas:														
Operating	-	-	-	-	-	-	-	-	-	-	-	-	487,074	138,401
Royalties	-	-	-	-	-	-	-	-	-	-	-	-	773,624	288,558
Gas distribution operating	-	-	-	-	-	-	-	-	-	-	-	-	815,345	633,462
Interest:														
Long-term debt	-	-	-	-	-	-	-	-	-	-	-	-	167,763	169,708
Other	-	-	-	-	-	-	-	-	-	-	-	-	17,342	24,171
Salaries and employee benefits	-	-	-	-	-	-	-	-	-	-	-	-	197,906	143,373
Professional and consulting fees	-	-	-	-	-	-	-	-	-	-	-	-	130,686	29,989
General and administrative	-	-	-	-	-	-	-	-	-	-	-	-	232,086	72,898
Total costs and expenses before other charges													2,821,826	1,500,560
INCOME FROM OPERATIONS BEFORE OTHER CHARGES													1,737,671	640,865
OTHER CHARGES:														
Depletion and depreciation	-	-	-	-	-	-	-	-	-	-	-	-	466,149	172,924
Amortization of deferred costs	-	-	-	-	-	-	-	-	-	-	-	-	24,566	21,910
Cost of abandoned properties	-	-	-	-	-	-	-	-	-	-	-	-	44,151	—
Total other charges													534,866	194,834
INCOME BEFORE INCOME TAXES AND EXTRAORDINARY ITEM													1,202,805	446,031
PROVISION FOR INCOME TAXES (Note 9):														
Current	-	-	-	-	-	-	-	-	-	-	-	-	94,758	39,945
Deferred	-	-	-	-	-	-	-	-	-	-	-	-	393,021	140,101
Total provision for income taxes													487,779	180,046
INCOME BEFORE EXTRAORDINARY ITEM													715,026	265,985
EXTRAORDINARY ITEM:														
Tax reduction resulting from application of prior years' tax losses (Note 9)													53,608	28,983
NET INCOME FOR THE YEAR													768,634	294,968
DEFICIT AT BEGINNING OF THE YEAR													355,028	649,996
RETAINED EARNINGS (DEFICIT) AT THE END OF THE YEAR													\$ 413,606	\$ (355,028)
INCOME PER SHARE (Note 10)														

The accompanying notes are an integral part of the consolidated financial statements.

**COLONIAL OIL & GAS LIMITED**  
(Under the Companies Act, British Columbia)

**CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1979**  
(with prior year's figures for comparison)

ASSETS													1979	1978
<b>CURRENT ASSETS:</b>														
Cash and term deposits	-	-	-	-	-	-	-	-	-	-	-	-	\$ 1,321,953	\$ 103,727
Accounts receivable:														
Trade	-	-	-	-	-	-	-	-	-	-	-	-	399,897	390,875
Other (Note 3)	-	-	-	-	-	-	-	-	-	-	-	-	1,576,243	—
Inventories of supplies — at cost	-	-	-	-	-	-	-	-	-	-	-	-	73,212	38,462
Prepaid expenses	-	-	-	-	-	-	-	-	-	-	-	-	995	23,376
Total current assets													3,372,300	556,440
INVESTMENTS — at cost (Note 4)	-	-	-	-	-	-	-	-	-	-	-	-	599,312	—
PROPERTY, PLANT AND EQUIPMENT (Note 5)	-	-	-	-	-	-	-	-	-	-	-	-	7,359,520	4,442,425
<b>OTHER ASSETS:</b>														
Incorporation and organization costs	-	-	-	-	-	-	-	-	-	-	-	-	12,132	12,132
Deferred costs — less amounts amortized	-	-	-	-	-	-	-	-	-	-	-	-	119,193	117,387
Deposits	-	-	-	-	-	-	-	-	-	-	-	-	7,650	34,540
Goodwill — at cost	-	-	-	-	-	-	-	-	-	-	-	-	76,535	76,535
Total other assets													215,510	240,594
<b>TOTAL</b>													<b>\$11,546,642</b>	<b>\$ 5,239,459</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>CURRENT LIABILITIES:</b>														
Bank loan	-	-	-	-	-	-	-	-	-	-	-	-	\$ —	\$ 254,000
Accounts payable and accrued liabilities	-	-	-	-	-	-	-	-	-	-	-	-	1,107,779	449,972
Income taxes	-	-	-	-	-	-	-	-	-	-	-	-	3,015	54,012
Security Deposits	-	-	-	-	-	-	-	-	-	-	-	-	99,173	74,227
Current portion of long-term debt	-	-	-	-	-	-	-	-	-	-	-	-	160,500	144,500
Total current liabilities													1,370,467	976,711
LONG-TERM DEBT (Note 6)	-	-	-	-	-	-	-	-	-	-	-	-	1,687,000	1,397,500
ADVANCES ON FUTURE GAS SALES (Note 7)	-	-	-	-	-	-	-	-	-	-	-	-	6,017	198,985
DEFERRED INCOME TAXES	-	-	-	-	-	-	-	-	-	-	-	-	681,943	288,922
<b>SHAREHOLDERS' EQUITY:</b>														
Share capital (Note 8)	-	-	-	-	-	-	-	-	-	-	-	-	7,387,609	2,732,369
Retained earnings (deficit)	-	-	-	-	-	-	-	-	-	-	-	-	413,606	(355,028)
Total shareholders' equity													7,801,215	2,377,341
<b>TOTAL</b>													<b>\$11,546,642</b>	<b>\$ 5,239,459</b>

Approved by the Board:  
HARVEY. A. McDIARMID, Director  
R. W. HOLE, Director

The accompanying notes are an integral part of the consolidated financial statements.



# COLONIAL OIL & GAS LIMITED

## CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1979

(with prior year's figures for comparison)

	1979	1978
WORKING CAPITAL PROVIDED:		
From operations - - - - -	\$ 1,505,582	\$ 566,483
Extraordinary item — reduction in income taxes - - - - -	53,608	28,983
Contributions — natural gas consumers and others - - - - -	47,583	5,511
Alberta Royalty Tax Credit - - - - -	138,065	43,050
Issue of share capital for cash - - - - -	2,519,000	25,000
Long-term debt - - - - -	450,000	—
Other - - - - -	518	—
	<hr/>	<hr/>
Total - - - - -	4,714,356	669,027
	<hr/>	<hr/>
WORKING CAPITAL APPLIED:		
Additions to petroleum and natural gas properties (net of shares issued in 1979 of \$2,136,240) - - - - -	319,161	250,859
Additions to plant and equipment - - - - -	1,020,311	240,149
Paid or payable on long-term debt - - - - -	160,500	144,500
Repayment of advances on future gas sales - - - - -	192,968	95,185
Investment in shares - - - - -	599,312	—
Other - - - - -	—	34,795
	<hr/>	<hr/>
Total - - - - -	2,292,252	765,488
	<hr/>	<hr/>
INCREASE IN WORKING CAPITAL FOR THE YEAR - - - - -	2,422,104	96,461
WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR -	420,271	323,810
	<hr/>	<hr/>
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR - - -	<u>\$ 2,001,833</u>	<u>\$ (420,217)</u>

The accompanying notes are an integral part of the consolidated financial statements.

# COLONIAL OIL & GAS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

### 1. SIGNIFICANT ACCOUNTING POLICIES:

#### Consolidation

The consolidated financial statements include:

The accounts of the company and its subsidiaries, all of which are wholly owned.

The company's proportionate share of revenues and expenditures of partnership interest purchased during the year (Note 2).

Goodwill arising from the purchase of certain subsidiaries in 1973 is not being amortized.

#### Foreign currency translation

Foreign currency amounts have been translated to Canadian dollars as follows:

Current assets and current liabilities — at the rate of exchange prevailing at the year-end.

Non-current assets — at the historic rate of exchange.

Sales and expenses — at the average rate of exchange for the year.

#### Petroleum and natural gas properties and depletion

All costs relative to the acquisition, exploration, and development of oil and gas reserves are capitalized until such time as commercial production commences or the property is abandoned. Costs applicable to abandoned properties are charged to operations in the year of abandonment. Depletion of producing properties is provided for on the unit-of-production method based on the estimated recoverable reserves of oil and gas.

#### Depreciation

Gas and oil production equipment are being depreciated primarily on the unit-of-production method, and for certain equipment on the straight-line and declining-balance bases at rates from 10% to 30%.

Gas transmission and distribution facilities and other equipment are being depreciated on a straight-line basis at rates from 2% to 20% as prescribed by the British Columbia Energy Commission.

#### Amortization of deferred costs

Financing costs are being amortized over the term of the related long-term debt, and rate application hearing costs are being amortized over two years, both on a straight-line basis.

#### Deferred income taxes

Deferred income taxes result primarily from deducting for tax purposes, drilling, exploration, and lease acquisition costs in excess of the related amounts provided in the accounts.

### 2. ACQUISITION OF PROPERTIES:

On June 30, 1979 the company purchased an interest in certain oil and gas partnerships for \$2,136,240, by the issue of 1,424,160 common shares at \$1.50 per share. The effective date of the transaction was January 1, 1979 and, as of that date, the company was entitled to all benefits and advantages accruing to the partnership interests. The company intends to convert the partnership interests to working interests in the related properties in 1980. The company's proportionate share of the partnerships' revenues and expenses for the year were:

Sales	-	-	-	-	-	\$1,158,935
Operating and other costs	-	-	-	-	-	384,159
Royalties	-	-	-	-	-	348,680
Depletion and depreciation	-	-	-	-	-	277,925

### 3. ACCOUNTS RECEIVABLE — OTHER:

This account includes temporary advances made on behalf of Colonial Oil & Gas Limited 1979 Joint Venture Drilling Program in the amount of \$1,336,035. The balance of the amount, \$240,208 represents the net cash flow for the year from the partnership interest discussed in Note 2. Both amounts were paid in 1980.

### 4. INVESTMENTS:

During the year the company purchased 200,000 shares (approximately 14% of the issued capital of the company) of Minerals Engineering Corp., a U.S. mining corporation involved in the exploration for and development of mining properties in the United States. The company holds a major interest in a large silver property in Creed, Colorado.

The shares were purchased for cash from two shareholders, one of whom is a director and officer, at the shareholders' original cost of \$599,312. The stock is classified as "letter stock" and cannot be traded until April, 1981. The market value of an equivalent number of free shares trading on the U.S. Over-The-Counter market was approximately Cdn. \$2,000,000 at December 31, 1979.

### 5. PROPERTY, PLANT AND EQUIPMENT:

	1979	1978
Petroleum and natural gas properties	\$5,926,319	\$3,515,069
Gas and oil production equipment	594,481	362,719
Gas transmission and distribution facilities	2,166,628	1,454,966
Other	201,125	124,238
Total Cost	8,888,553	5,456,992
Less:		
Accumulated depletion and depreciation	1,351,800	884,917
Contributions from natural gas consumers in aid of construction	177,233	129,650
	<u>\$7,359,520</u>	<u>\$4,442,425</u>



# COLONIAL OIL & GAS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

(CONTINUED)

### 6. LONG-TERM DEBT:

	1979	1978
11% debenture due 1989, repayable and secured as discussed below - - - -	\$1,125,000	\$1,225,000
7% Series A first mortgage bonds due 1984, payable in annual instalments of \$13,000 and secured by a charge on gas transmission and distribution facilities - - -	65,000	78,000
9 7/8% Series B first mortgage bonds due 1986, payable in annual instalments of \$25,000 and secured by a charge on gas transmission and distribution facilities - - -	175,000	200,000
11 1/4% Series C first mortgage bonds due 1994, payable in annual instalments of \$16,000 to 1984, \$25,000 to 1986 and \$40,000 to 1994, and secured by a charge on gas transmission and distribution facilities - - -	450,000	-
7% Series A first mortgage bonds due 1984, payable in annual instalments of \$6,500 and secured by a charge on gas transmission and distribution facilities -	32,500	39,000
	<u>1,847,500</u>	<u>1,542,000</u>
Less due within one year -	<u>160,500</u>	<u>144,500</u>
Total long-term debt - -	<u>\$1,687,000</u>	<u>\$1,397,500</u>

The 11% debenture consists of a debenture and mortgage secured by a first charge on the companies' interest in two specific petroleum and natural gas properties, by production equipment on the properties, by the assignment of production purchase agreements and net proceeds from sale of minerals from the pledged properties. The debenture principal is repayable \$25,000 quarterly to March

1981 and \$31,250 quarterly from June 1981 to March 1989. The debenture agreement provides for the acceleration of principal repayments on the basis of increases in production revenues from the pledged properties. Principal repayments on all long-range debt for the next five years are as follows:

1980	-	-	-	-	\$160,500
1981	-	-	-	-	179,250
1982	-	-	-	-	185,500
1983	-	-	-	-	185,500
1984	-	-	-	-	185,500

### 7. ADVANCES ON FUTURE GAS SALES:

These advances have been made under the terms of gas purchase agreements with two subsidiary companies. The advances are interest-free and are repayable at the rate of 33 1/3% of the sales value of gas delivered.

Amounts so repaid during the year totalled \$192,968 (1978 - \$95,185).

### 8. SHARE CAPITAL:

The company is authorized to issue 10,000,000 (1978 - 5,000,000) common shares without par value.

Changes in issued and fully paid shares were:

	Shares	Amount
Balance, December 31, 1978	3,314,556	\$2,732,369
Issued for cash - - - -	1,533,334	2,300,000
Issued for properties (Note 2) - - - -	1,424,160	2,136,240
Issued on exercise of stock options by directors and officers - - - -	230,000	219,000
Balance, December 31, 1979	<u>6,502,050</u>	<u>\$7,387,609</u>

At December 31, 1979, 20,000 common shares were reserved for the exercise of options to a director, exercisable to June 30, 1980 at \$1.80 per share. As well, 100,000 common shares were reserved in respect of a warrant for the purchase of common shares, exercisable to June 30, 1980 at \$1.80 per share.

### 9. INCOME TAXES:

The provision for income taxes differs from the amount obtained by applying a composite Canadian and U.S. corporation income tax rate to income before income taxes because of the effect of the following:

	1979		1978	
	Amount	Income Percentage of Pre-Tax	Amount	Percentage of Pre-Tax Income
Computed income tax expense - - - -	\$ 576,189	48.1%	\$ 196,642	44.1%
Increase (decrease) in income taxes resulting from:				
Non-deductible royalties and other expenses - - - -	273,220	22.7	102,010	22.9
Federal resource allowance - - - -	(148,508)	(12.4)	(67,306)	(15.1)
Provincial royalty tax credit - - - -	(138,065)	(11.5)	(43,505)	(9.6)
Income depletion - - - -	(69,126)	(5.7)	(27,153)	(6.1)
Other - - - -	(5,931)	(.6)	18,903	4.2
Income tax expense - - - -	<u>\$ 487,779</u>	<u>40.6%</u>	<u>\$ 180,046</u>	<u>40.4%</u>

# COLONIAL OIL & GAS LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1979

(CONTINUED)

### 9. INCOME TAXES (continued):

A subsidiary company has a tax loss carry-forward of approximately \$175,000 which expires in 1984. Any reduction in taxes payable will be recorded when the loss is utilized.

### 10. INCOME PER SHARE:

Income per share, based on the weighted average number of shares outstanding during the year, was:

	1979	1978
Income before extraordinary item	12.47¢	8.06¢
Extraordinary item - - - -	.93	0.87
Net income for the year - -	<u>13.40¢</u>	<u>8.93¢</u>

For purposes of this calculation, the shares issued for properties (Note 8) have been included from January 1, 1979. The option and warrant discussed in Note 8 have no significant dilutive effect.

### 11. COMMITMENTS:

The company has commitments in the normal course of business, including its agreement to manage the Colonial Oil & Gas Limited 1979 Joint Venture Drilling Program.

### 12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The aggregate direct remuneration paid or payable to directors and senior officers, as defined in the Companies Act, British Columbia, totalled \$166,061 for the year, of which \$148,561 was paid to full-time employees.





